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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING
whether there has been a violation
of the Securities Act of Washington by:

KELLY C. RUGGLES, d/b/a/
AMERICAN RELIANCE GROUP

Respondent

SDO - 064 - 01

Statement of Charges and Notice of Intent to Issue Order
Suspending Registrations and Imposing Fines

Case No. 00 - 11 - 474

THE STATE OF WASHINGTON TO: Kelly C. Ruggles
2317 S. Browne Street
Spokane, WA 99203

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondent, Kelly C. Ruggles, has violated the Securities Act of Washington and that those violations justify the entry of an order of the Securities Administrator under RCW 21.20.110 suspending Respondent's investment adviser and securities salesperson registration and imposing fines. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

A. RESPONDENT

1. Kelly C. Ruggles ("Ruggles") is a registered investment adviser with the State of Washington, doing business as American Reliance Group. Ruggles has been so registered since May 11, 1998. Ruggles is also

1 registered as a securities salesperson in Washington State for Freedom Financial, Inc., a registered
2 broker/dealer, and has been so registered since July 31, 2000. Ruggles' principal place of business is 320
3 W. Spofford Avenue, Spokane, WA 99203.

4 2. On or about August 7, 1998, Ruggles signed an Independent Sales Agreement ("ISA") with J. Scott Rigall
5 ("Rigall"), d/b/a Pioneer Financial Concepts, based in Crockett, Texas. Under the terms of the ISA, Ruggles
6 agreed to offer and sell securities in the form of units of Alliance Leasing Corporation's equipment leasing
7 program to investors in exchange for a commission of 8 percent of the amount invested.

8 3. Alliance Leasing Corporation is not currently registered to sell its securities in the state of Washington and
9 has not previously been so registered.

10 B. ALLIANCE LEASING CORPORATION

11 4. In July 1998, the Mississippi Office of the Secretary of State, Securities Division, issued a Cease and Desist
12 Order against Alliance Leasing Corporation, alleging violations of the anti-fraud provisions of the Mississippi
13 Securities Act.

14 5. On October 7, 1998, the Securities and Exchange Commission ("Commission") obtained a temporary
15 restraining order against Alliance Leasing Corporation in order to stop an ongoing fraud, freezing over \$22
16 million in Alliance assets. The Commission alleged that since at least December 1997, Alliance
17 fraudulently offered and sold unregistered units in its equipment-leasing program to at least 240 investors
18 nationwide.

19 6. On October 15, 1998, Alliance filed a petition for voluntary bankruptcy. On November 25, 1998, the
20 Court granted the Commission's motion to appoint an independent trustee ("the Trustee") over Alliance.
21 On December 15, 1999, United States Bankruptcy Judge Peter W. Bowie confirmed a reorganization plan
22 proposed by the Trustee appointed over Alliance and a creditors' committee.
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1 7. On March 20, 2000, the United States District Court for the Southern District of California granted the
2 Commission's motion for summary judgment against all defendants in the Alliance matter. The Court
3 determined that Alliance's owners and agents raised over \$46,000,000 from more than 1,500 investors
4 throughout the United States through the fraudulent sale of unregistered equipment leasing investments in
5 Alliance. The Court ruled that the defendants defrauded investors in connection with the offer and sale of
6 these interests by making numerous material misrepresentations and omitting to state material facts about
7 the investment. The Court also determined that the defendants illegally sold the Alliance investment in
8 violation of the registration provisions of the federal securities laws. Finally, the Court ordered the two
9 defendant owners of Alliance Leasing Corporation to disgorge \$477,467 (plus interest) to investors and to
10 pay to the Commission a matching civil money penalty of \$477,467 each.

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12 C. RUGGLE'S CONDUCT

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14 8. On or about August 7, 1998, Ruggles offered and sold \$10,000 worth of interests in an Alliance Leasing
15 program to an investment advisory client, Harriet Broderick ("Mrs. Broderick"), an 87 year-old widow. Mrs.
16 Broderick was extremely risk-averse, and had an investment objective of income.

17 9. Ruggles represented that investor money would be used to purchase commercial equipment (such as
18 computers and cellular telephones) that would then be leased to third parties (the "end-users"). The end-user's
19 lease payments to Alliance purportedly constituted the source of revenue to be shared by Alliance and the
20 investors, who were promised a minimum of a 28 to 32% return over 25 months. Ruggles orally represented
21 that the leasing interests were safe and secure investments, but provided no disclosure documents to Mrs.
22 Broderick to allow her to make this determination for herself, either before or after the sale.

23 10. Ruggles represented to Mrs. Broderick that Alliance would use at least 90% of investor funds to purchase
24 equipment, when, in reality, 40% of their funds were used to pay fees and commissions. Ruggles also

1 misrepresented the integrity of Alliance's management by failing to disclose their disciplinary histories for
2 securities law violations. Ruggles also failed to disclose that Prime Atlantic, an unregistered broker-dealer
3 located in Florida, had an exclusive agreement to raise funds for Alliance and received 30% of all funds raised
4 as a commission. Ruggles also failed to disclose the fact that the State of Mississippi had issued a Summary
5 Cease and Desist Order against Alliance Leasing Corporation alleging fraud in connection with the offer and
6 sale of units in its equipment leasing program.

7 11. The Trustee contacted Ruggles by mail on April 27, 1999, requiring repayment of his commissions. On
8 July 27, 1999, Ruggles disgorged \$800, his commission from the sale of interests in Alliance Leasing to Mrs.
9 Broderick.

10 12. Ruggles was not registered with the state of Washington as a securities broker-dealer or securities
11 salesperson at the time of the offer and sale of the Alliance Leasing interests to Mrs. Broderick.

12 Based upon the foregoing Tentative Findings of Fact, the following Conclusions of Law are made:

13 **CONCLUSIONS OF LAW**

14 1. The offer and/or sale of interests by Respondent Ruggles in the equipment leasing program
15 constitutes the offer and/or sale of securities as defined in RCW 21.20.005 (10) and (12).

16 2. Respondent Ruggles has willfully violated RCW 21.21.140 by offering and/or selling unregistered
17 non-exempt securities in Washington.

18 3. Respondent Ruggles has willfully violated RCW 21.20.010 by representing, with no reasonable
19 basis in fact, that the Alliance Leasing interests were secure and by failing to provide material
20 information.

21 4. Respondent Ruggles has willfully violated RCW 21.20.702 by recommending the purchase and sale
22 of said securities to his customers without reasonable grounds to believe that such transactions were
23 suitable for those customers.

1 5. Respondent Ruggles has willfully violated RCW 21.20.040 by offering and selling said securities
2 while not registered as a securities salesperson or broker-dealer in the state of Washington.

3 6. Willful violations of RCW 21.20.140, RCW 21.20.010, RCW 21.20.040, and RCW 21.20.702
4 constitute grounds for the denial, suspension or revocation of Respondents' securities salesperson and
5 investment adviser licenses pursuant to RCW 21.20.110(1)(b).

6 **NOTICE OF INTENT TO SUSPEND REGISTRATION**

7 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities
8 Administrator intends, pursuant to RCW 21.20.110(1), to order that Respondent Ruggles's investment
9 adviser and securities salesperson registrations be suspended for a period of three (3) months.

10 **NOTICE OF INTENT TO IMPOSE FINES**

11 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities
12 Administrator intends, pursuant to RCW 21.20.110(3), to order that Respondent Ruggles shall be liable
13 for and pay a fine in the amount of \$10,000.

14 **AUTHORITY AND PROCEDURE**

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16 This STATEMENT OF CHARGES AND NOTICE is entered pursuant to the provisions of RCW
17 21.20.110 and Chapter 34.05 RCW. Respondent Kelly C. Ruggles may make a written request for a
18 hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR
19 HEARING accompanying this order. If the respondent does not request a hearing, the Securities
20 Administrator will make the foregoing Tentative Findings of Fact and Conclusions of Law permanent
21 and enter an order suspending Ruggles' investment adviser and securities salesperson registrations for a
22 period of three (3) months and imposing the \$10,000 fine.

23 DATED this _____ day of _____ 2001.

Deborah R Bortner

DEBORAH R. BORTNER
Securities Administrator

Approved by:

Presented by:

Michael E. Stevenson
Chief of Enforcement

Rex A. Staples
Senior Enforcement Attorney